MARKETS FOR AUSTRALIA'S DAIRY PRODUCE.

(R.B. McMillan).

Now that the war is over, producers of almost all our important foodstuffs are wondering just what sort of a market there will be for their products. During the war it was largely a problem of trying to produce more and still more with depleted manpower, worn-out machinery and equipment, and all the other hindrances of war-time production, but now the Services are being demobilised, Army orders for food are falling off steadily and sources of supply cut off by the war are now coming back on to the world's markets.

Conditions, then, are changing fast. True, there will be quite a demand for food for relief purposes for some months yet, perhaps even years. Gradually, however, the world will settle down to a more permanent pattern of production and trade, and it is on this more permanent pattern that attention will be focussed in this article.

Dairying is not the most important of our industries. Wool, wheat, and meat all surpass it both in terms of total production and in terms of export, but its future is certainly the subject of the liveliest speculation, because it brings in all the "worrisome" issues such as competition with synthetics, Empire preference, the home consumption price, the usefulness of subsidies, technical efficiency, and so on, which are met with in one or another of our other main industries.

An attempt will therefore be made to cover briefly the main facts which can be gathered about pre-war markets for dairy products and to assess their significance to the long-term future. A few points are worth noting. First, the market for Australia's dairy production, and more especially for its exports, is a market for the whole of Australia's production; it cannot be very profitably viewed from the standpoint of each individual State. Secondly, the available markets are considered almost exclusively in terms of quantities rather than prices. Prices are naturally important to the producer, but in the likely circumstances of post-war trade, and especially with our own exports subsidised by a home-consumption price scheme, demand will take the form of demand for a quantity, rather than demand at a price. Thirdly, the survey is brief, and there is no pretence that the conclusions are authoritative. The relevant issues are simply brought to the fore so as to bring into focus those aspects which appear to be the most significant.

By far the most important use of the wholemilk obtained from our dairy cows is for conversion into butter. This is illustrated in the following table:-

Australia: Utilisation of Total Wholemilk Produced.

Used for	Average 5 seasons ended 1938-39.		Average 5 seasons ended 1943-44.	
	m.galls.	%	m.galls.	%
Butter manufacture	914	80	841	73
Cheese "	48	4	70	6
Processed milk	28	2	52	5
Other purposes *	159	14	180	16
Total:	1,149	100	1,143	100

* Almost wholly liquid milk consumption.

On this evidence, then, the future of dairying is very much the future of butter, and so the market for butter will be examined first.

Butter.

Australian butter has in the past had three main markets: (i) the domestic market; (ii) the United Kingdom; and (iii) other countries. The relative importance of these is set out in the first table on page 327.

The domestic market has been fairly stable, annual consumption having advanced only from 28.1 lb. per head in the early 1920's to 32.6 lb. per head for the 5 years ended 1940-41, the latter figure being higher than for any other country except New Zealand, where consumption reached 38 lb. per head. Further expansion is unlikely to any really significant extent, even with full employment and high purchasing power in the hands of the population, a 20 per cent. increase over the next ten years being suggested as a likely upper limit. On the other hand, a decrease is possible should the legislation restricting margarine manufacture be relaxed and a palatable product much cheaper than dairy butter become available. Should a large-scale increase in population by immigration take place, then home demand will rise in keeping, but it is semi-officially stated that immigration will be permitted only on a relatively minor scale.

The United Kingdom up to the present has been Australia's only important customer for butter, but Australia's supplies before the war were not so important to the U.K. as her imports from New Zealand or from Denmark. (See the tables on page 327). For the immediate future, that is, the next 2½ years to June, 1948, the "long term" contract with Britain will take care of all Australia's export surplus, but after that there is no certainty as to its disposal. Britain will not be in a position to buy indiscriminately and in any case she will owe some allegiance to her other suppliers of the past. There will also be price competition with other countries anxious to expand their trade, such as Eire and the Baltic countries, and recent developments make it doubtful whether Australia can look for support much longer from Empire Preference. In any event, Britain has recently shown a tendency to swing towards greater consumption of margarine, a trend she may be obliged to encourage if margarine is cheaper.

Australia, therefore, might well look for other markets. In the countries of the "Near North" are some 1,200 million people with living standards considerably below our own and those of other "Western" countries. The United Nations Food and Agriculture Organisation has, as one of its chief aims, the raising of nutrition standards in countries such as these. If, for instance, the advance of industrialisation in India gives that country the ability to buy increasing quantities of such foods as butter, then here is an enormous potential market for our goods. If other countries, such as China and the East Indies, are able to follow suit, the possibilities become tremendous. But a word of caution is necessary. Australia can only participate in any such trade if she can produce and sell at prices which are competitive with other countries anxious for the trade, and also if the prices are within the reach of the importing countries.

At this point, prices take on some importance, because the return to the Australian dairy farmer is compounded of a high home-consumption price and a much lower export price. The greater the proportion of exports therefore, the lower the average return to the producer. It may well be that the Australian dairying industry will not want to exploit these new market opportunities very fully for that reason.

Cheese.

The proportions of cheese production disposed of in the various markets were, before the war, much the same as those for butter. For example, the domestic market took some 57%, the United Kingdom roughly 41½%, and other countries the small balance of 1½%. There are quite big differences, however, in the surrounding circumstances. In the first place, home consumption levels (4 lb. per head per annum) are low in comparison with some other countries, viz., U.K. (8½ lb.), Denmark (12 lb.), France and Germany (12 to 12½ lb.); though in the same range as New Zealand (4½ to 5 lb.), Canada (3½ lb.) and U.S.A. (5½ lb.). There is considerable room for increased home consumption, but cheese is nutritionally largely a substitute for meat, and Australians are predominantly meat eaters by preference.

Another difference is the very minor place occupied by Australia among Britain's suppliers. Although we depend heavily on Britain's purchases of cheese, she in no real sense depends on our supplies (See tables on page 328). Consequently, it would be very rash to count on an assured market in Britain after the "long-term" contract expires in June, 1948. The biggest difference rests in the fact that cheese is only a minor part of our dairy production, taking as little as 5% of total wholemilk output, so that any changes in the demand for cheese could have only a very small influence on total wholemilk production.

So far as the future is concerned, there are, as with butter, large potential markets in the "Near North", but also as with butter, the markets may be very slow in developing to a stage of adequate purchasing power. Further, the industry may look askance at too intensive a development of exports because it would tend to draw down the average equalised price.

Processed Milks.

The market for processed milks is rather brighter than for butter and cheese, but because there have been some big changes during the war, it is harder to look into the future on the basis of past statistics. In the first place, productive capacity has expanded and wartime output has been at approximately double the level of the years immediately prior to the war. Secondly, home consumption habits have been influenced by wartime conditions and will probably continue at a higher level in peace time.

However, the greatest changes are likely to come in the export market. Unlike butter and cheese, processed milks have not found an important market in Britain, but British Malaya was already an important customer before the war, and India and Ceylon also have taken large quantities during the war, though chiefly as Service requirements. Many in the trade hold the belief that Australian processed milks have now an opportunity to build up a very substantial market in Eastern countries. However, plant capacity will necessarily limit the extent of possible expansion and it is as well to remember that processing still takes only about 5% of total wholemilk output, so that even to double output would not greatly influence total wholemilk production.

Fresh Milk.

The market for fresh milk is entirely local and consumption was fairly stable over the previous years at roughly 3½ pints a week per head. This level is much the same as consumption in other countries with comparable living standards, but it falls short of what is recommended by nutritionists.

During the war there was a tendency for consumption to increase, but without accurate figures it is hard to judge its extent. However, supposing an increase of from 20% to 25%, an increase of total wholemilk production by 3 to 4 per cent. would be called for, an important increase as milk for fresh consumption is paid for at higher rates than milk for butter or cheese. Even such an increase, however, would fall far short of the nutritional ideal of 1 pint per head per day, a goal which could be reached only slowly, by intensive publicity, by maintaining low prices, and perhaps also by subsidising consumption by some classes of the population.

Summary.

If anything in the nature of conclusions can be drawn from the above, they are along these broad lines:

1. The Domestic market offers no spectacular possibilities, though the wartime gains in processed milk and liquid milk consumption will probably be held. There is the ever-present threat of competition from margarine, but if existing legislation is preserved, it will remain no more than a threat for some years.

2. The United Kingdom market is assured up to June, 1948, but offers doubtful prospects after that. Though Britain will still remain our most important butter and cheese market for many years to come, there is a very real probability that it will tend to shrink rather than expand.

3. Other Overseas Markets are still largely conjectural, but the "Near North" is already in the market for our processed milks, and may well soon take butter and cheese in quantity also. It is hard at this stage to talk in terms of quantities involved, but with rapid fulfilment of the United Nations Food and Agriculture Organisation's aims of a world of plenty, the market could be virtually limitless. On the other hand, the Australian dairying industry must make an early decision as to how much export it really wants if exports continue to be made at lower prices than the home consumption price. If the industry raises itself to maximum efficiency it will be able to take hold of these export opportunities; if its efficiency remains at present levels, a common meeting ground on price may be hard to find, and other exporting countries will probably take the prize. Even more than this, Australia will have to publicise her wares much more effectively than in the past if she wants to sell them.

Perhaps a word should been said about possible industrial uses for milk, such as for casein and lanital. These have not so far been developed to any extent in Australia, and their future usefulness, in view of wartime developments in the field of industry, and especially in plastics, is largely conjectural. Because no real light can be shed on the part milk products can play here on a sound economic basis, perhaps this phase should, for the present, be allowed to remain purely conjectural, though not entirely forgotten.

AUSTRALIA: DISPOSAL OF BUTTER PRODUCTION: PREWAR AND WARTIME.

	Average 5 seasons ending			
	1938-39		1943-44	
	m.lbs.	%	m.lbs.	%
Home Consumption ..	223.5	50.9	240.8	59.7
Exported to:				
United Kingdom ..	200.9	45.8	145.4	36.0
Netherlands East Indies	5.7	1.3	2.8	0.7
British Malaya ..	1.7	0.4	1.2	0.3
Egypt ..	1.3	0.3	3.9	0.9
Philippine Islands ..	1.1	0.2	0.6	0.1
India and Ceylon ..	1.0	0.2	2.0	0.5
Other Countries ..	3.8	0.9	7.1	1.8
Total Exports: ..	215.5	49.1	163.0	40.3
Total Production: ..	439.0	100.0	403.8	100.0

WORLD TRADE IN BUTTER AND UNITED KINGDOM IMPORTS.

	Average 1929-33		Average 1934-38	
	m.lbs.	%	m.lbs.	%
Exported from:				
Denmark ..	356	28.5	329	24.2
New Zealand ..	232	18.5	309	22.7
Australia ..	172	13.8	220	16.2
Baltic Countries ..	136	10.9	145	10.7
Netherlands ..	75	6.0	110	8.1
Eire ..	49	3.9	52	3.8
Other Countries ..	230	18.4	194	14.3
Total Exports: ..	1,250	100.0	1,359	100.0
Imported by U.K. from:				
Denmark ..	271	21.7	257	18.9
New Zealand ..	213	17.0	306	22.5
Australia ..	152	12.2	206	15.2
Baltic Countries ..	54	4.3	94	6.9
Netherlands ..	11	0.9	67	4.9
Eire ..	47	3.8	45	3.3
Other Countries ..	114	9.1	100	7.4
Total: ..	862	69.0	1,075	79.1
Germany ..	219	17.5	171	12.6
Belgium, France, Switzerland	65	5.2	16	1.2
Other Countries ..	104	8.3	97	7.1
Total Imports: ..	1,250	100.0	1,359	100.0

AUSTRALIA: DISPOSAL OF CHEESE PRODUCTION: PREWAR AND WARTIME.

	Average 5 seasons ending			
	1938-39		1943-44	
	m.lbs.	%	m.lbs.	%
Home Consumption ..	27.9	56.8	38.4	53.6
Exported to:				
United Kingdom ..	20.4	41.6	20.4	28.5
Hong Kong ..	0.2	0.4	0.2	0.3
India ..	-	-	2.7	3.8
British Malaya ..	0.2	0.4	0.4	0.6
Philippine Islands ..	-	-	0.2	0.3
Egypt ..	-	-	4.5	6.3
Other Countries ..	0.4	0.8	4.9	6.8
Total Exports ..	21.2	43.2	33.3	46.4
Total Production ..	49.1	100.0	71.7	100.0

WORLD TRADE IN CHEESE AND UNITED KINGDOM IMPORTS.

	Average 1930-34		Average 1935-39	
	m.lbs.	%	m.lbs.	%
Exported from:				
New Zealand ..	206	30.9	186	31.9
Netherlands ..	169	25.4	128	22.0
Canada ..	77	11.6	80	13.7
Italy ..	69	10.4	50	8.6
Switzerland ..	50	7.5	43	7.4
France ..	27	4.1	25	4.3
Denmark ..	15	2.3	20	3.4
Australia ..	9	1.4	27	4.6
Other Countries ..	43	6.4	24	4.1
Total Exports ..	665	100.0	583	100.0
Imported by U.K. from:				
New Zealand ..	207	31.6	195	34.3
Canada ..	77	11.7	66	11.6
Netherlands ..	20	3.1	20	3.5
Australia ..	9	1.4	15	2.6
Other Countries ..	20	3.1	17	3.0
Total: ..	333	50.9	313	55.0
Germany ..	106	16.2	69	12.1
U.S.A. ..	56	8.5	57	10.0
Belgium ..	48	7.3	51	9.0
France ..	48	7.3	31	5.4
Other Countries ..	65	9.8	48	8.5
Total Imports ..	656	100.0	569	100.0